PERMANENT LAYOFFS

some issues in the policy debate

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Discussion Paper Series

ONTARIO ECONOMIC COUNCIL

81 Wellesley Street East
Toronto, Ontario
M4Y 1H6

Printed in Canada

ISSN 0702 0643
ISBN 0 7743 6306 1

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This report reflects the views of the author and not necessarily those of the Ontario Economic Council or the Government of Ontario. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy.

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ACKNOWLEGMENTS

The author gratefully acknowledges the assistance of the following: Elizabeth Parr Bond; Fred Caleron; Thomas Courchene; Employment and Immigration Canada; John Ham; Michael Krashinsky; Michael Mendelson; Ontario Chamber of Commerce; Ontario Federation of Labour; Clerk's Office, Ontario Legislature; the research staff of the Ontario Legislature's Select Committee on Plant Shutdowns and Employee Adjustment; Research Branch, Ontario Ministry of Labour; Office of Economic Policy, Ontario Ministry of Treasury and Economics; Department of Regional Economic Expansion; Lorie Tarshis; and District 6 of the United Steelworkers of America. Any errors in the paper are the sole responsibility of the author.

INTRODUCTION

When a business enterprise closes or cuts production significantly, all or some of its employees are usually dismissed. Whether this action is called permanent layoff, mass termination, or some other euphemism, the result is often substantial hardship for many workers. As the opening page of a recent government report put it:

> Many of those whose jobs are lost in plant closings find themselves, after years of faithful service, with little or no severance pay, with extremely meagre pensions and with few prospects of finding alternative employment. (Ontario 1980b, p.1)

The individuals likely to be hardest hit by permanent layoffs are those who lack skills, those whose skills are no longer in demand, and those who have strong attachments to a small community - in other words, the workers who have the least mobility in the labour market. As the quotation suggests, this group includes many older workers; young people are also disproportionately represented.

No matter what their age, the dismissed workers may suffer in more than their pocketbooks. Persons who experience sudden loss of employment often show physiological signs of stress, such as elevated blood pressure and pulse rates (Cobb and Kasl 1970). Psychological depression is also common (Gore 1973). Moreover, the impact of layoffs is felt not only by the individuals directly concerned but also by the communities surrounding them. For a municipality, a plant closing or cutback means its property tax base dwindles at the same time that local welfare services experience increased demands. This burden is particularly heavy where the numbers laid off are large relative to the size of the community. And in such instances, housing values are likely to decline sharply, causing additional economic losses to both individual homeowners and the municipality (Canada 1979b).

Many people are concerned about these problems, yet there has been surprisingly little economic analysis of policies, actual or proposed, designed to ease the impact of layoffs. Proposals for policy change appear frequently, but few writers defend particular viewpoints in terms of economic efficiency. The academic literature on permanent layoffs is especially thin; most scholarly attention has focussed on the effects of policy on rates of temporary layoffs. Yet the issues involved in 'reg-

ulating' permanent layoffs are complex and pressing. This paper, therefore, examines the existing literature and attempts to identify the issues that urgently require further research.

The first two sections present some background material: the magnitude of the problem of permanent or indefinite layoffs in Ontario and the state of legislation concerning it in Ontario, the rest of Canada, the United States, and Western Europe.

The main body of the paper begins by reviewing the basic issues: Can government intervention in layoffs be justified as efficient? Does collective bargaining alone provide sufficient protection for workers? To what extent does a tight labour market affect the workings of layoff policy?

With these issues in mind, the paper then turns to an examination of particular aspects of actual and proposed policy: mobility and training allowances; portability of pensions; mandatory consultation with workers and the community; requiring advance notice and/or severance pay; and special policies for layoffs by multinational or conglomerate firms. The conclusion presents a summary of findings and recommendations for future research.

THE MAGNITUDE OF THE PROBLEM

One difficulty in analysing permanent layoffs is that we simply do not know the exact size of the problem. In Ontario, the Employment Adjustment Service (EAS) of the Ministry of Labour has some data on layoffs by firms of at least a fair size. Legislation requires an employer to notify the EAS whenever he plans to dismiss at least fifty employees (or 10 per cent of his labour force, whichever is greater) from one establishment during a period of four weeks or less. The EAS also endeavours to collect information about long-term layoffs of over twenty-five employees; to do so, it maintains contacts with employers, unions, and Canada Manpower offices and watches the news media.

The data collected by the EAS are published annually by the Research Branch of the Ministry of Labour.

The EAS figures are, however, an imperfect guide to the magnitude of the layoff problem for a number of reasons. In reporting to the EAS, firms that intend to lay off fifty or more employees usually overstate their

expectations of the actual numbers to be dismissed.[1] Taken alone, this consideration suggests that the EAS figures are overestimates. On the other hand, the EAS is likely to fail to record some instances of layoffs that affect twenty-five to forty-nine workers, since reporting is not mandatory for such cases. Furthermore, the EAS figures do not include any data on layoffs that involve fewer than twenty-five workers.[2]

Thus, it is clear that the reporting practices now mandated in Ontario do not make it possible to obtain an accurate figure for the number of workers who have been permanently or indefinitely laid off in the province.

Moreover, it is not known how many of the reported layoffs are final. The Ontario government defines permanent or indefinite layoffs as those lasting thirteen or more weeks, but some layoffs of this length are certainly neither permanent nor indefinite in the usual sense of the words. Presumably, the arbitrary figure is used because a long layoff creates hardships even if there is eventual recall. Yet the hardships involved differ in kind for workers who can reasonably expect recall and those who cannot.

It is quite clear, however, that in many cases the EAS data reflect plant closings or cutbacks and hence lost jobs to which workers have no hope of returning. And even if the statistics are not exact, it is also clear that permanent or indefinite layoffs (in both the legal and normal senses of the words) are affecting a large number of individuals in Ontario. As shown in Table 1, the EAS data for recent years revealed an upsurge in layoffs during the fiscal year 1979/80, and it continued in subsequent months. The figure for the first nine months of the calendar year 1980 was 25,430 (Ontario 1980a). And 23.6 per cent of the layoffs reported for 1979/80 occurred in communities with populations of less than 30,000 (Shakeel 1980, p.3).

Given today's environment of slow growth and a high rate of unemployment, many of the people represented by these statistics have a

1 Doing so gives them flexibility. As we shall see, the advance-notice requirements for mass layoffs are such that a firm that has underestimated its plans is liable for a penalty in the form of termination payments ('pay in lieu of notice').

2 Some - also incomplete - data on total layoffs (temporary, permanent, and indefinite) are reported by the Canada Employment and Immigration Commission.

TABLE 1

Known long-term layoffs in Ontario, 1974/5 to 1979/80

Fiscal year	Number of employees involved
1974/5	13,417
1975/6	11,697
1976/7	19,844
1977/8	17,052
1978/9	10,559
1979/80	21,899

SOURCE: Ontario (1980a) 1:14
NOTE: Data are for EAS-recorded layoffs (over thirteen weeks, involving at least twenty-five employees in one establishment).

difficult time finding new jobs.[3] Whatever the exact figures for layoffs may be, they are certainly so large as to indicate the need to examine policy in this area. Ontario Minister of Labour R. Elgie acknowledged this point speaking in the legislature in October 1980:

> I do not want to be in the false position of attempting to justify human hardship on the basis of quantitative or statistical analysis. Whatever set of figures one may use, the fact remains many persons in Ontario have had their employment terminated in recent months as a result of full or partial plant closures and we have an obligation to devise practical, equitable and affordable ways of alleviating the resulting human hardship. (Ontario 1980c, p.3339)

LEGISLATION AND PROGRAMS REGARDING LAYOFFS

The law in Ontario

The main piece of Ontario legislation regarding layoffs is the portion of the Employment Standards Act that requires advance notice of termination.

3 In their study of unemployment in the United States, Clark and Summers (1979) found that most of the unemployed are out of work for long periods of time. For example, in 1974 only 36 per cent of unemployment was attributable to individuals who found work within three months. (Clark and Summers 1979, p. 16)

TABLE 2

Notice of termination requirements

Individual Terminations	
Duration of employment	Advance notice required
less than 3 months	none
3 months - 2 years	1 week
2 years - 5 years	2 weeks
5 years - 10 years	4 weeks
more than 10 years	8 weeks
Mass Terminations	
Number laid off	Advance notice required
50 - 199	8 weeks
200 - 499	12 weeks
500 or more	16 weeks

SOURCE: Ontario Employment Standards Act

This law distinguishes between individual terminations, for which the stipulated length of notice varies with length of service, and mass terminations, for which it varies with the number of workers being laid off. The mass termination rules apply when an establishment that employs five hundred or fewer persons lays off fifty or more of them within a four-week period or when a larger establishment lays off more than 10 per cent of its work force within the same period. (In cases of partial or complete closures, the 10 per cent rule does not apply; instead the fifty-or-more criterion is used.) The provisions for mass terminations also apply to layoffs that are indefinite or temporary but scheduled to last for more than thirteen weeks in any period of twenty weeks.[4]

A summary of the notice periods required for various situations is given in Table 2.

4 Exempted from the legislation are layoffs in the construction industry and persons laid off because of labour disputes or unforseeable events such as bankruptcy.

If the employer dismisses an employee before the end of the stipulated notice period, he must given him 'pay in lieu of notice' - a lump-sum payment equivalent to the wages he would have received over the rest of the notice period.[5] Ontario has, however, no statutory requirement of severance pay (that is, a termination payment is required only when the notice requirement has been violated).

In all cases that require mass notice, the employer must give notice of the layoff action to the Ministry of Labour at the same time he gives it to the employees.

Federal assistance programs available in Ontario

Employees who are permanently laid off in Ontario may receive assistance from a number of federal government programs administered by the Canada Employment and Immigration Commission (CEIC). These include mobility grants, counselling, training programs, and labour-management adjustment committees.

The Canada Manpower Mobility Program provides cash grants to persons who must move to obtain work; they defray part of moving costs or the expense of travelling to another area to explore employment opportunities. In the case of relocation grants, the recipient must demonstrate that he or she cannot find comparable work in the home community and is moving to a job in the nearest area where suitable positions are available. The amounts of the grants depend on family size, and the program is open only to workers with incomes below limits that vary with the number of dependents and the length of unemployment.

Retraining may be available to laid-off workers under one of two programs. Canada Manpower Industrial Training is an employer-based program designed to alleviate shortages of skilled labour and to provide jobs to workers who have 'special needs' and thus difficulty in obtaining and holding permanent employment. For each province, federal-provincial Manpower Needs Committees establish priorities that determine the occupational and industrial sectors in which training subsidies will be granted. The CEIC reimburses participating employers for direct training costs and

5 The proposed Bill 191 would extend this provision to requiring an employer to continue to contribute to benefit plans throughout the entire advance-notice period, even if the employee is actually let go during it.

for wages up to 40 per cent for employees in the program who had been previously hired by the company, up to 60 per cent for persons hired specifically for training, and up to 85 per cent for special-needs workers.

Canada Manpower Training, on the other hand, provides not employer-based training but courses at colleges and vocational schools; trainees receive living allowances rather than wages. Training courses are purchased according to the needs of the labour market as established by the federal-provincial Manpower Needs Committees.

Persons permanently laid off from certain industries may be eligible for special help. The Adjustment Assistance Benefit Program, for example, aids older workers (ages 54 to 64) in the textile and clothing industry who are laid off as a result of lowering barriers against imports; it guarantees persons whose skills are obsolete a basic income until age 65, when social security and social insurance plans become effective. A similar program without the age restriction is available to former workers in the footwear and tanning industries.

The Special Industry and Labour Adjustment Program is a recent addition to the federal government's collection of layoff-related programs. Under it, communities or industries may be designated as requiring special adjustment-assistance, such as direct job creation in the community or wage subsidies to employers who hire workers who are laid off and face little prospect of early re-employment. The program may also offer incentives to firms willing to undertake new investments (or expand or restructure existing ones) in designated communities.[6] However, its mandate (and its $350 million budget) is such that only the most severe cases of community disruption may be designated as eligible.

Workers facing layoffs may find their present best hope lies in the federal program that establishes Manpower Adjustment Committees to facilitate management-labour consultation and planning for adjustment to technological change or layoffs. Such a committee is set up, however, only when an employer agrees to it and is willing to pay part of its cost. (The CEIC usually pays up to 50 per cent of such a committee's costs, the Ontario Ministry of Labour 15 to 25 per cent up to a maximum of $1000, and the employer the rest.) During the fiscal year 1979/80, Ontario had

6 The available incentives include interest-free loans to cover up to 50 per cent of the capital costs of the project. However, these incentives may be used only if the project is 'viable' yet would not be undertaken without program assistance.

fifty-two instances of mass terminations; Manpower Adjustment Committees were set up for twenty-eight of them (Ontario 1980a, vol. 2, app. B).

These committees can offer a variety of services. Officials of the Canada Manpower Consultative Service (CMCS) act as advisors and co-ordinate the application of counselling and placement services as well as that of the various federal mobility programs already described. They can also draw on the Manpower Mobility Incentive Program, which was specifically designed to operate in conjunction with Manpower Adjustment Committees. If such a committee recommends that employees be transferred to another plant of the same employer or if an employer in a single-industry community agrees to reimburse workers for their expenses in moving to jobs elsewhere, the CMCS may pay up to 50 per cent of the cost.

During recent years, about 60 per cent of the employees who have sought assistance from a Manpower Adjustment Committee have been placed directly in new employment (Ontario 1980a, vol. 2, app. C). This may not appear to be a high success rate, but, as Krawetz and Muszynski (1980, p. 82) point out, one should bear in mind that committees are most likely to be set up and used where the workers are expected to have difficulty in finding new jobs on their own.

Legislation elsewhere in Canada

Workers facing permanent layoffs in provinces other than Ontario may find help in the federal programs; they may also have slightly different legal protection.[7] All jurisdictions in Canada except New Brunswick have statutory advance-notice requirements for individual terminations, although the period is no more than two weeks in three provinces (Alberta, Newfoundland, and Prince Edward Island) and in industries under federal jurisdiction. Mass terminations require additional notice in Quebec, Manitoba, Nova Scotia, Newfoundland, and the federally regulated sectors. Although only Quebec exceeds Ontario's maximum stipulation of sixteen weeks, several jurisdictions use a correspondence between numbers laid off and notice required that is more demanding than Ontario's. (For example, Nova Scotia stipulates eight weeks' and Quebec two months' notice if ten to

7 See Ontario 1980a, vol. 2, appendix A, for the details of the regulations in various Canadian jurisdictions.

ninety-nine employees are affected. Manitoba, Nova Scotia, and the federal jurisdiction require sixteen weeks' notice and Quebec four months' if more than three hundred persons are dismissed.)

None of the provinces requires severance pay. In the federal jurisdiction, however, severance pay must be given to employees dismissed after five or more years of continuous service; the rate is two days' pay per year employed up to a maximum of forty days' wages.

Quebec law gives the Ministry of Labour authority to compel employers to participate in the federal-provincial program of Manpower Adjustment Committees.

United States law

The United States has no federal legislation that requires employers to provide advance notice, severance pay, or any other form of adjustment assistance to workers in the event of dismissal or indefinite layoff. The federal government does, however, provide some assistance to workers displaced by the impact of increased imports. Recently, three bills have been proposed that would regulate plant closings and relocations (though not mass dismissals from plants that continue to operate). All three would require long notice periods, indemnification of the local community for lost tax revenue, and more rapid pension vesting for workers who lose their jobs as a result of plant closings or relocations. Freedman (1980) argues that passage of any of these bills is unlikely.

Only two American states have passed laws that deal specifically with adjustment assistance for plant closings and relocations. Maine requires severance pay of one week's wages per year of service whenever a plant that employs one hundred persons or more terminates business or moves more than one hundred miles. Michigan has a program to assist in developing employee-owned corporations when an establishment is closing or relocating. Legislation requiring advance notice, severance pay, and indemnification of an affected community has been proposed but not passed in several northeastern and north central states and in Alabama.

Legislation and programs in Western Europe

In Western Europe, legislation to protect workers against layoffs and pro-

vide assistance in adjusting to them is generally more comprehensive than in North America.[8] Most jurisdictions stress the employer's obligation to consult workers and government authorities before laying off employees and to justify such an action.

In West Germany, for example, an intended collective dismissal (which may involve as few as six workers in firms employing fewer than fifty workers) cannot take place without consultation with the works council.[9] A firm that employs more than twenty persons must go through a multistep process in order to obtain permission for a layoff. First, it must negotiate with the council for a social plan, which normally includes compensation for workers who will be disadvantaged as a result of the proposed change. Next, the government's local labour office must be notified of the firm's intentions and the council's opinion. The case is then examined by a committee chaired by the officer in charge of the provincial labour office; this committee, which must authorize any dismissals, includes equal representation from labour, management, and the community. So as to avoid these procedures, many employers in recent years have offered generous separation pay to workers who agree to leave the firm 'voluntarily'.

Support for retraining programs is also common policy in West Germany. Many collective agreements include provisions for retraining in which the employer bears all costs, including maintenance of wages. There are also government-sponsored retraining programs.

Swedish legislation on collective dismissals requires the employer to give the union and the local labour office justification and advance notice of two to six months (depending on the number of workers affected). The union has a right to call for negotiations on ways to ease the impact of the dismissals. For major reductions of operations, adjustments are worked out by a joint consultative body comprised of representatives of the em-

8 It has been argued that this difference can be explained by Europeans' fear of substantial social unrest without such protective legislation, a fear that has been absent in North America on account of forty years of rapid growth. (See, for example, the Carrothers Report [Canada 1979a, pp. 36-7].) No doubt Europe's experience of social upheaval in this century has contributed to fears there of further unrest.

9 In West Germany and Austria, works councils are typically composed only of representatives of the labour force. In Belgium, France, the Netherlands, and Scandinavia, works councils are joint labour-management bodies. See Malles (1973) for details on the role of works councils.

ployer, the employees, the community, and the local labour office (European Industrial Relations Review 1980; Ontario 1980a; Wu 1980).

Training programs supported by the government and employers are a key part of Swedish policy for labour market adjustment. The programs, which generally last for a year, are geared to placing workers in industries with labour shortages. Persons enrolled in them receive substantial living allowances as well as moving and relocation grants. Placement is facilitated by the requirement, instituted in 1977, that all job vacancies in the country be registered with the government employment service.

Until recently, wage subsidies to declining firms were another feature of Swedish labour-adjustment policy. Firms on the verge of bankruptcy could obtain a 50 per cent wage subsidy (75 per cent if the firm were dominant in the locality) for up to a year. In the slow-growth economy of the late 1970s, however, the wage subsidy program expanded to the point of being primarily a means of keeping redundant workers in jobs. The result has been a shift in policy. Beginning in 1980, activity directed at sustaining declining firms was substantially cut back, and the program's focus returned to encouraging mobility into competitive industries (see Hekman and Strong 1980).

Severance pay is not mandated by law in Sweden, but it is usually required by the collective agreements negotiated centrally between the Swedish Employers Federation and the national trade union groupings. (Unionization is more extensive in Sweden than in North America. Malles [1973, p. 37] estimates that more than 80 per cent of Swedish manual workers belong to a union.) Payments, designed mainly to aid older workers, are made out of an insurance fund to which employers contribute 0.1 per cent of their annual wage bills.

In the United Kingdom, legislation regarding dismissals is less demanding than in West Germany or Sweden. Only recently did the Employment Protection Act institute a requirement of consulting the relevant union before dismissals (ninety days in advance for layoffs of one hundred or more workers, less otherwise), and the employer is obligated only to listen to the union's views.

The U.K. does, however, have a statutory requirement of severance pay, whose amount varies with the age of the worker as well as length of service. The payments are made by the employer, but partial rebates are available from a central fund.

SOME FUNDAMENTAL QUESTIONS

Before considering whether other jurisdictions' experiences suggest directions in which Ontario might seek new policies to combat the effects of permanent layoffs, one must look at the fundamental issues involved. Can any possible government action in the area be justified on grounds of economic efficiency? How do considerations of fairness influence policy choice? Does collective bargaining eliminate the need for government intervention? How does the general state of the economy affect the need for programs that relate to permanent layoffs?

Economic justification

Is there an efficiency basis for government regulation of plant closings or cutbacks? A common justification for government intervention in a given market is the presence of externalities (that is, decisions made in this market affect costs and/or benefits in some ways that the decision-makers do not take into account), and, therefore, private costs and/or benefits are not equal to social ones. The question regarding government policy on plant shutdowns and cutbacks is then: Do these actions have social costs beyond those experienced by the employers who lay off employees? The literature echoes common sense in giving the answer as yes.

What is not well resolved in the literature, however, is the problem of how to measure the size of the externality. Krawetz and Muszynski (1980, pp. 27-8) focus on government agencies' actual outlays for unemployment insurance and welfare payments. In addition, they cite evidence in Brenner (1976) that the psychological stress resulting from permanent layoffs leads to more use of health care services as well as to more criminal activity and hence increased costs for police and detention services. The authors are indeed correct in identifying increased costs for health care and police services as a drain on the resources of the economy; they fail to note, however, that outlays for unemployment insurance and welfare benefits are transfer payments (that is, they are payments by the government but receipts by those laid off) and, therefore, an inappropriate measure of economic loss.

An alternative approach to estimating the size of the externality, exemplified in the work of Hekman and Strong (1980), is measuring the

social cost in terms of the value of output foregone by the creation of unemployment. So simply stated, this method ignores the value of the added leisure on the benefit side of the equation as well as the disutility associated with the stigma of job loss and the resulting increased use of health and crime prevention services on the cost side. With corrections for these factors, however, the foregone-output approach seems the appropriate one.

The size of the externality also depends on whether one is measuring it from a local or a global point of view. Tax revenue lost because of a plant closing is sometimes included in the social cost, but, as Hekman and Strong point out, it may be an external cost only from the viewpoint of the local community. The real question here is the effect on resource use. A closing reduces a municipality's tax receipts, but it presumably also reduces its costs because it no longer has to provide city services to the plant. If the plant moves elsewhere and the extra cost to local services per unit of output is then the same as before, there is no economic loss from a global point of view. Nevertheless, the original host community suffers a social cost as long as it loses more in taxes than it saves on services, a situation that is particularly likely to occur if the provision of local services had previously offered economies of scale. And fixed costs may prove a heavy burden for a small community, especially if the closed plant had been the major source of employment. (For an elaboration of this problem, see the federal Department of Regional Economic Expansion's study of single-sector communities [Canada 1979b].)

Further consideration of a plant relocation suggests yet another factor in estimating the net social cost involved. From the global viewpoint, one must add to the equation the new community's increased output, reduced leisure, and decreased use of health and crime prevention services, as well as increased use of municipal services by the plant. When these variables are balanced against the old community's foregone output, increased leisure, increased use of health and crime prevention services, and decreased use of municipal services, the relocations may prove to lead to little net change in the global economic cost of producing a given output, even though the net cost to the original host community may be substantial. In fact, the net effect could be a reduction in the global cost. The lengths of time workers in the first community remain unemployed and those in the relocation community would have done so without the new

employer affect the net outcome. Indeed, if workers in the original host community are able to find re-employment quickly, there is little need for special layoff-related policies (see Hekman and Strong 1980, p. 37).

In brief, the decision to lay off workers permanently does generate external social costs, but the size of these costs depends on, among other factors, the state of the economy and whether the measurer takes a local or a global point of view. Clearly, in a recessionary economy, the global costs are likely to be positive and the local costs quite large. It would, however, be useful to have further empirical studies on measurement of the externality.

Equity considerations

Using externalities to justify some government action concerning permanent layoffs may be good economic theory, but economists have long recognized that efficiency alone does not legitimize anything since the distribution of wealth, as well as its total size, is a social concern. (For a recent discussion of this issue, see Courchene [1980].) Therefore, a major justification for programs to help workers adjust to plant closures and layoffs is uneasiness about the distribution of the costs of economic change, however desirable such change may be in terms of efficiency. Another factor here is concern that individuals in similar economic circumstances be treated equally.

Ideally, one hopes to find policies that improve both equity and efficiency. Indeed, the reality of the effects of interest-group lobbying on political decision-making suggests that policies to improve efficiency cannot be implemented unless they are accompanied by measures to ensure that no group suffers heavily as a result. (For example, Caves [1976] and Saunders [1980] demonstrate the ability of interest groups to maintain tariff protection of their industries.) The assessment of particular policy instruments must keep these considerations in mind.

Unionization and policy choice

Since workers bear the burden of permanent layoffs, it is tempting to say that government need not step in, that they themselves can bargain to have provisions that improve employment security included in collective agreements. One could even argue that the extent to which workers do

not demand such provisions must reflect their desire to trade off employment protection for other benefits, such as higher wages. Thus, runs the reasoning, one must conclude that there is little justification for government intervention in plant closings or cutbacks.

This view is unacceptable for at least two reasons. One is that less than one-third of the labour force in Ontario is unionized. For the rest, the oligopsony power of the employer may well preclude the possibility of workers' obtaining an 'efficient' level of employment protection. Secondly, given the existence of government-subsidized health care, employment counselling services, unemployment insurance, general welfare programs, and so on, not all the social costs of layoffs are borne by the workers themselves. So even where the workers' bargaining power matches that of the employer, one cannot expect an efficient resolution of the layoff problem by means of collective bargaining alone.[10]

Thus, unionization does not solve the layoff problem. Indeed, empirical work by Medoff (1979) suggests that it adds to the problem in one respect: layoffs are more likely to occur in unionized firms, since downward adjustments in real wage rates in response to a fall in product demand are less likely to occur in such firms (and the probability of voluntary quits is lower there).[11]

The collective bargaining argument - and counterargument - may also be applied to communities. That is, one may ask why a municipality does not require 'community severance pay' in the event of a plant closing

10 This argument should be distinguished from the view, expressed by Eleen and Bernardine (1971, p. 54) among others, that legislation is needed because workers are in a weak bargaining position at the time of shutdown. Once workers anticipate the possibility of closure, they should be able to bargain for protection in advance of actual distress.

Another argument against bargaining as a solution to an externality problem relates to transactions costs and uncertainty. It suggests efficient bargains may not be struck because of the difficulty in drawing up contracts that allow for all relevant contingencies. This argument does not appear to be an important one in the context of layoff policy, since the costs of devising an instrument such as a severance pay scheme are not likely to be large.

11 Medoff, citing Freeman (1976), explains this finding in terms of the greater influence of older workers on decision-making in unionized situations. Such workers are less vulnerable to layoffs because of seniority rules. In nonunion firms, employee preferences are more likely to be inferred from the actions of marginal workers (quits and new hires).

as part of its 'bargaining' with a firm locating there. Alternatively, tax rates could be designed to vary inversely with the duration of a company's operation in the community. The answer likely rests on an asymmetry in bargaining power: firms considering new investments can use their flexibility regarding choice of location to their advantage. This point provides a rationale for federal or provincial government intervention in the form of imposing rules that apply to all municipalities within the jurisdiction.

The labour market and general economic conditions

The general state of the economy must be a fundamental consideration in examining alternative policies for dealing with the problem of permanent layoffs. In a growing economy with a low unemployment rate, most laid-off workers have much less difficulty finding re-employment than they do in recessionary times. Thus, a tight labour market reduces the social costs of layoffs. Furthermore, in a buoyant economy, the number of workers affected by plant closings and cutbacks is relatively small. It seems, then, that the layoff policy issue is very much a child of our stagflationary times; when governments are reluctant to attack unemployment directly for fear of hastening the rate of increase in prices, the result is foregone output, high social costs, and a clamour for aid for those who bear the cost most intensely. Yet no layoff policy can be expected to achieve a large reduction in the unemployment rate in an enivronment characterized by fiscal and monetary restraint.

Of course, even a generally buoyant economy may still have some industries in decline and hence some workers with job-specific skills in need of assistance. Nevertheless, one important aspect of solving the problem of permanent layoffs is clearly the pursuit of a macroeconomic policy aimed at full employment. The Ontario Federation of Labour emphasizes this point:

> Retraining, relocating and finding new jobs for displaced workers would be simpler during a period of high employment. However plant shutdowns and high rates of unemployment usually run concurrently. Any solution to plant shutdown cannot be divorced from efforts to provide for a buoyant economy and full employment. (Ontario Federation of Labour 1980, p. 4)

POLICY INSTRUMENTS: TAXES AND SUBSIDIES

Once the would-be policymaker has identified basic issues and problems, the question of the appropriate remedy remains. The economist's usual approach to an externality problem is to use taxes or subsidies to internalize the social cost. One can tax firms that lay off workers by imposing such things as severance-pay and advance-notice requirements. Or one can subsidize the employment of the individuals who would otherwise be out of work, using either a direct wage subsidy or an indirect device (a subsidy to re-employment) such as mobility grants and retraining programs.

Before examining the existing theory and evidence on the effectiveness of particular instruments of either kind, it is worth considering some possible general effects of taxes, subsidies, or both.

For example, a tax designed to discourage firings may also discourage new hirings; if it does, assessment of the value of the policy must include deducting the social costs of the latter from the benefits of the former. Nickell (1979) presents theory and evidence from British data that suggest raising the cost of firing may actually increase unemployment rates by making firms more selective about whom they hire. Workers with marginal skills or questionable employment histories - in other words, people an employer might be willing to hire provided he could fire them inexpensively if they prove unsatisfactory - are particularly less likely to find jobs. Further empirical work along the lines of that in Nickell's paper would be helpful in guiding public policy in this area.

A related point is the fear expressed by a number of employers' associations, such as the Ontario Chamber of Commerce (1980) and the Board of Trade of Metropolitan Toronto (1981). Measures that increase the cost of firing, they say, discourage new investment and drive prospective employers to take their capital to other, less stringent jurisdictions. If this phenomenon occurs, it generates social costs for the jurisdiction with the firing tax that must be considered in determining layoff policy. The literature reports little work on estimating the size of this effect, but the fact that the European Economic Community is trying to standardize layoff provisions across member countries is some, albeit crude, evidence of its existence and underlines the need for analysis.

Employment subsidies (instead of or in addition to taxes on firing) raise different issues. The problem here is to choose the subsidy instrument that, over time, yields the greatest net social benefit. As the Swedes have discovered, a wage subsidy to declining firms is unlikely to achieve much since it must be continued indefinitely to prevent layoffs; this instrument is, therefore, given no further attention in this paper. On the other hand, subsidies that encourage mobility, such as subsidies for retraining or relocation, have the advantage of being temporary in nature yet offering the prospect of long-term gains in the form of increased productivity and reduced probability of being unemployed in the future.

Since these programs increase employment security (although not always in a worker's current job), one consideration in assessing their social costs and benefits must be the effect of increased employment security on productivity. It is difficult to make a prediction on the direction of this effect. Some people claim that security invites slack performance on the part of workers. However, others, such as Eleen and Bernardine (1971, p. 30), argue that increased employment security reduces employees' resistance to technological change and thereby <u>increases</u> productivity. The impressive growth of productivity in countries such as West Germany and Sweden, where security of employment is quite high, is taken by some as evidence that such security is at least not inconsistent with economic vitality. Others retort that the success of many relevant programs in European countries is predicated on their governments' ability to manage labour market pressure by redirecting the flow of foreign workers. Further study of this issue is warranted.

<u>Mobility and training allowances</u>

The first policy instrument to examine is subsidies to mobility because they offer the possibility of long-term gains for short-term costs. A comprehensive mobility program offers laid-off workers, in addition to counselling and placement services, free retraining, substantial living allowances for its duration, and a subsidy to moving costs whenever they must relocate to find new jobs. Such programs appear to have worked well in Sweden and West Germany. According to Hekman and Strong (1980, p. 50), Swe-

den's extensive retraining programs 'have created a high degree of preparedness for employment transition in the future. The programs have been successful in moving redundant workers into the growing engineering sector.' A cost-benefit analysis of the Swedish mobility programs would be useful in guiding policy elsewhere.

The question of who should pay for such programs remains. Arguments against requiring workers to pay for their own retraining and relocation are based on capital market imperfections (a worker would have to face a substantial risk premium) as well as considerations of equity; moreover, workers themselves do not bear all the social costs of unemployment. Yet requiring the previous employer to pay amounts to a tax on firing, which, as we have seen, has uncertain ramifications. Sweden finances its mobility programs out of general tax revenues and a fee paid by <u>all</u> employers.

Setting aside the (not unimportant) question of who pays, it is clear that the mobility programs that now exist in Canada are woefully inadequate. The Carrothers Report (Canada 1979a) notes that spaces in retraining programs are often unavailable and that Canada Manpower counsellors are generally unable to match mobility programs with specific occupational vacancies. Since employers are not required to list job vacancies with Manpower, a complete listing of opportunities is unavailable. McKenna, in his study (1973) of the labour market experience of workers who received advance notice of termination, reports that only 11.5 per cent of those who acquired new jobs credited their success to the aid of Manpower Centres.

As Krawetz and Muszynski (1980, p. 84) point out, Canadian mobility programs would no doubt be more useful if they were complemented by greater knowledge of employers' specific labour requirements. Statutory requirements for firms to list all vacancies with Canada Manpower and for each Manpower office to have a complete listing of job openings for the entire country appear to be called for.

Moreover, as the Carrothers Report notes, many Canadian government policies work indirectly but powerfully to limit mobility. For example, flows of federal funds to high unemployment regions discourage migration out of them. The lack of skill-certification systems that are uniform across the provinces is also a barrier to mobility.

Improved pension portability

Another major hindrance to mobility comes from the lack of portability of private pensions. Under Ontario law, employers do not have to provide any pension plans, but many do offer one as an employment benefit. The problem relating to layoffs and mobility arises from the province's vesting requirements. Most private pension plans are contributory: that is, the employees as well as the employers must contribute to their funding. Only 'vested' employees, however, have a right to pension benefits arising from employer contributions. And in Ontario, only employees who are at least 45 years of age and have ten or more years of service to the employer must be vested. More liberal vesting rules may be negotiated under collective bargaining or imposed by a nonunion employer. However, under the present statutory requirements - to take an extreme case - if a 44-year-old worker with twenty-five years of service is laid off, he or she may lose all the pension benefits that have accrued from the employer contributions. The same could happen to a 55-year-old employee who has been in his most recent job for nine and one-half years.[12]

The lack of portability associated with current vesting rules calls for

12 Until very recently, another serious problem with lack of portability sometimes occurred when a pension plan was terminated on account of, say, a plant closing: insufficient funds existed to pay all the vested benefits and possibly some of the employees' contributions. This problem arose because Ontario allowed a firm up to fifteen years to cover a pension plan's unfunded liabilities. Such unfunded liabilities typically occurred under flat-benefit plans, which pay a fixed amount per year of service; when employees negotiated an increase in the benefit rate under such a plan, unfunded liabilities were created in the form of increased amounts owed on previous years of service. Workers for small firms seldom encountered this situation because their employers usually use money-purchase plans, whose benefits are always fully funded because they depend entirely on what the accumulated contributions can purchase. But approximately 350,000 Ontario workers, including most of those who belong to the largest unions, are covered by flat-benefit plans (Ontario 1980b, p. 23). The problem of unfunded liabilities in them was dealt with by the introduction, in December 1980, of an amendment to the Pension Benefits Act; it established an insurance fund to guarantee accrued pension benefits in the event of plan termination.

Another problem of plan termination still occurs with final-average pension plans, for which benefits depend on earnings during the last few years of service. If such a plan terminates, benefits for a fully vested employee are, of course, lower than if he had continued until retirement age under the same plan.

revised legislation to establish some mechanism for immediate vesting. This would require defining plan liabilities in terms of individuals rather than groups (or having one group plan - that is, replacing private plans by a public one). The recently completed Haley Commission Report (Ontario 1981) recommends establishing a universal system that would make pensions completely portable and give employees the option of investing their pension entitlements in instruments of their choice. These aspects of the commission's recommendations appear to be worthy of support, although a detailed assessment of the report is beyond the scope of this paper.

In assessing the probable impact of pension portability, one must remember that resulting changes in wage grids would likely offset in part the effects of eliminating vesting requirements. Pesando and Rea (1977) point out that if one motive for delayed vesting is employers' desire to retain skilled workers, its elimination must be expected to result in wage rates that rise with length of service more steeply than they do now. To the extent that this phenomenon occurred, permanent layoffs would still result in a loss of 'benefits' to the workers involved. The offset would probably be only partial, however, and, as Pesando and Rea note, the benefit loss would be more evenly related to length of service than that implied by current vesting rules.

It should also be noted that workers who meet the current vesting requirements would not benefit from liberalized rules. Indeed, they would lose, since their pensions are now, in effect, subsidized by the benefits lost by workers who leave the plan before vesting. The change in wage grids would, however, mitigate this effect.

Thus, the case for improved pension portability remains strong. Indeed, this is one policy change that would both ease the burden of adjustment to layoffs and promote labour mobility. The Canadian Manufacturers' Association (1981) points out, however, that if portability is a genuine objective, then the provincial and federal governments must move to establish it nationwide.

Consultation and government intervention

As we have seen, the basic goal of policy regarding permanent layoffs is to minimize their net social cost. The success of certain programs that may be used to achieve this end - in particular, retraining and placement

services - depends on the availability of information about the skills of the individuals laid off and about employment opportunities elsewhere in the industry (including in other plants of the firm that is dismissing the workers). Ordinarily, the employer and the union possess some of this information, a fact that suggests, at minimum, the need for consultation among the employer, the union, and representatives of the government agencies concerned with training and placement programs.

The mechanism for such consultation already exists in the form of the Manpower Adjustment Committees described earlier. And Bill 191 proposed in the Ontario legislature would give the provincial minister of labour (like his Quebec counterpart) authority to compel employers to participate in this program when they plan mass terminations. Since the cost of participating is usually small, the change in the law seems worthwhile.

Groups representing organized labour and writers sympathetic to labour's position generally argue, however, that the Manpower Adjustment Committees, though useful, are insufficient for dealing with the problem of employer accountability. For example, Eleen and Bernardine (1971) and the Ontario Federation of Labour (1980) say that a law should compel a company contemplating a plant shutdown to justify its decision before a public body that represents the community, government, industry, and labour. They also suggest that if the enterprise is economically viable, the Ontario Development Corporation should take it over and operate it.

The Carrothers Commission (Canada 1979a) took an intermediate position. Its major recommendation was that the minister of labour should have discretionary authority to require representatives of the employer and the employees to undertake joint consultation about means of adjusting to a planned layoff. It envisioned this process as consensual rather than adversary and suggested no mechanism for resolving an impasse other than ad hoc intervention. In other words, its recommendation included no legislative authority to compel an employer to reduce the number of planned layoffs, increase the number of intrafirm relocations, and so on. As Krawetz and Muszynski point out (1980, pp. 59-60), it is difficult to see how the Carrothers Commission's process would achieve more than the Manpower Adjustment Committees already do. Granted that joint consultation has had an impact in Europe, but this success may be laid to the fact that several jurisdictions there give government agencies the right to modify an employer's intended layoffs.

In West Germany, furthermore, workers are represented on both sides of the consultation table - through their works councils and through employee representation on boards of control, the supreme organs of management.

The question remains whether it would be advisable for Canadian governments to establish a right to intervene directly in proposed layoffs. Should not indirect policies - policies designed to take account of externalities without supplanting the firm's right to fire - be sufficient? If the world were one of perfectly competitive markets, it would be difficult to see any justification for direct intervention; in that case, if a firm were laying off workers in spite of policies that correct for externalities, surely it would be doing so because their jobs were redundant. However, this may not be so in imperfectly competitive markets. A plant may be profitable but not profitable enough for its current owners to want to maintain operations; yet if they sell it, the new owner might be a threat to their market power. Their solution to this situation may be to close it. When such circumstances appear to exist, a government may well want to have the authority to open the enterprise's books and if it is indeed profitable, to purchase the plant. Or, if the owners' plan is for cutbacks, a government may properly want the power to order a reduction in them.

Monitoring the profitability of plants may be difficult, however, especially for establishments that belong to a conglomerate enterprise (a problem discussed in more detail in the section of this paper that considers special policies towards such firms). And giving the government coercive power would be likely to discourage new investment since, in effect, such power would be a form of increasing the cost of dismissals. Further study of the costs and benefits must, therefore, be carried out before a sound assessment can be made of giving government the right of intervention. Again, the European experience should be of some help.

<u>Notice requirements</u>

In cases of individual dismissal, advance-notice legislation such as Ontario's is designed to facilitate the worker's search for a new job and adjustment of his or her personal affairs. In cases of a large number of dismissals, the requirements address two additional concerns. When layoffs affect workers with a particular skill that is not in demand by other firms, the individuals involved face a particularly difficult adjust-

ment. And when a plant closure or cutback occurs in a small community, the local social costs are heavy. Both these circumstances justify long notice periods that enable government agencies to plan assistance for the workers and the community. It is, however, difficult to identify the presence of such circumstances precisely and in advance, a fact that has led to the use, in Ontario and elsewhere, of mass-termination notice requirements based entirely on the number of workers to be dismissed and not on community size or the state of the labour market for the individuals concerned.

The effectiveness of long advance notice was the subject of a case study by Portis and Suys (1970). In February 1969, Kelvinator of Canada announced that its appliance plant in London, Ontario would close in five months. It also promised severance pay - $200 for workers with less than ten years' seniority and $28 per year of service for the others - with receipt conditional on an employee's staying until being laid off. Only 26 per cent of the production workers took other jobs before the shutdown, although an additional 16 per cent said they had new jobs lined up by that time. (Older workers made least use of the notice period; 38 per cent of those aged 51 to 65 did not look for new employment before the closing.)

Portis and Suys conclude that the long advance notice was not very costly to Kelvinator since so many of the production workers stayed on until the shutdown. Providing them with severance pay offset the savings to Kelvinator to some extent but not very much, given the amounts involved. But, say the authors, the notice would have been more useful to the workers had the severance pay not been conditional on staying on and had Kelvinator worked with Canada Manpower to arrange an on-site placement program.

Portis and Suys may be correct from the immediate viewpoint of the workers, but they overlook the fundamental dilemma of notice programs: to the degree that they are successful in providing new employment quickly for persons scheduled to be laid off, they are also likely to be costly to the firm.[13] Thus, a long advance notice is not merely an aid to workers; it also acts as a tax on firing, with all the ramifications that

13 Portis and Suys claim that even with unconditional severance pay and more placement services, most of the workers would have stayed on until the closing. They would have benefited not by leaving but by being better informed about opportunities. This argument is not convincing, at least to this author.

such a tax entails. And if long notice of a layoff reduces morale and thereby productivity, it raises an employer's costs even if the workers remain with the plant until they are dismissed.

Thus, sound policy for notice requirements requires further study of social costs and benefits. A key question here is the relationship of these costs and benefits to the length of the notice period. It may be that fairly brief advance notices, such as those currently required in Ontario, impose costs on the employers that are small relative to the gains to the workers, but that the former would increase more rapidly than the latter if the notice period were extended. On the other hand, in a survey of Ontario workers who had received notice of layoff, McKenna (1973) found that those dismissed under the individual termination rules had a substantially smaller success rate in finding new employment as a result of contacts made during the notice period than did those involved in mass layoffs, for which the required notice is longer. Thus, further study of benefits to workers as well as costs to employers is warranted. The Swedish experience with long notice periods may be helpful in this regard.

Researchers would also be well advised to consider whether the impact on the employer of requiring a long advance notice would vary with the size of the firm. Spokesmen for labour organizations, such as Eleen and Bernardine (1971, p. 87), argue that companies surely know of shutdown plans at least six months in advance. However, in his study of shutdowns in Quebec, Sexton (1974, p. 275) found that medium- and small-size employers tend to make last minute decisions on plant closings.

One change in Ontario's notice legislation clearly does appear to be called for. It concerns the requirements for reporting layoffs to the Ministry of Labour. Although the law defines mass layoffs as those affecting fifty or more employees, the EAS makes great efforts to obtain information on cases involving as few as twenty-five. There is little reason not to require firms to report such cases, whether or not the law is changed to require more advance notice for them. Such reporting is not likely to be costly, and there would probably be little more expense if the firms added information on the ages and years of service of the workers being laid off. Finally, employers should also be required to report recalls from what are legally defined as permanent or indefinite layoffs. All this information would cost little but greatly aid the ministry in assessing the magnitude of the layoff problem.

Severance pay

Ontario has no statutory requirement of severance pay for workers who are permanently laid off. Although some groups have negotiated provision of severance benefits as part of a collective agreement,[14] most employees in the province are not covered by such plans. Many labour spokesmen, such as the United Steelworkers of America, District 6 (1981), have argued that the provision of unconditional severance pay should be mandatory.

A number of possible justifications for statutory severance pay have been suggested. One is that severance pay provides income support to workers during the period of unemployment following layoff. However, unemployment insurance and general welfare programs already provide income support; if more or more prompt support is desirable, the same programs can be adjusted to deliver it, obviating any need for mandatory severance pay.

Another rationale offered for legislating a severance pay requirement is that workers have a property right in their jobs and so must be compensated if they are taken away. (This justification appears to be the one behind the statutory severance pay plan of the United Kingdom.) The theory is based on considerations of fairness rather than efficiency, and an assessment of it is beyond the scope of this paper.

The efficiency-based rationale for mandatory severance pay is that it serves as a tax on firing and can be designed to cause employers to internalize the social costs of permanent layoffs. This theory is worth exploring, even though we have already seen that taxing employers may have some unexpected - and undesirable - effects.

An important factor in determining the effects of a mandatory severance pay plan is whether it calls for the cost to be borne largely by the firm that lays off the workers or by an insurance fund (be it supported by contributions from all employers or by general tax revenues).

14 Kendall (1977) analyzed all collective agreements in Ontario covering bargaining units of 200 or more employees in industries other than construction. She found that 26 per cent of these agreements (covering 48 per cent of the employees in the sample) included severance pay. Among the larger sectors, the highest coverage rates were in the transportation equipment industry, federal administration (which has 100 per cent coverage), rubber manufacture, and the paper industry.

If it is the firm that is to pay, one must be careful in estimating its costs because they are not likely to be the same as the actual amount of severance compensation paid out. A severance pay plan provides a benefit to workers analagous to an employer-funded insurance policy. In a competitive labour market, one would expect employees' wage demands to take this into account; the equilibrium wage rate would fall, at least partially offsetting the cost of severance pay to the employer. In those parts of the labour market characterized by collective bargaining, however, one could at best expect a partial offset, since <u>mandatory</u> severance pay constrains the employer and increases the bargaining power of the worker. McKenzie (1980) goes so far as to argue that the increased job security it implies would cause workers to raise their wage demands. Further study of the effects of mandatory severance pay on wage rates appears to be warranted. The empirical part of such an investigation could consider the relevant experience in the United Kingdom.

If severance benefits come not from the firm that is laying off the workers but rather from an insurance fund (or from general tax revenues) without an experience rating to determine contributions, then the effects of a mandatory severance pay scheme change. In this case, severance pay becomes much like an increase in unemployment insurance benefits, which the academic literature, such as Baily (1977), says has the effect of increasing the probability of layoffs. On the other hand, the same literature predicts that making the employer fully liable for severance benefits would reduce the probability of layoffs - in other words, that a tax on firing should have the desired effect of reducing the number of dismissals.

Yet policymakers must also consider the likelihood, noted elsewhere in this paper, of a tax on firing's reducing new hiring, both by making firms more selective about whom they hire and by driving away new investment. Of course, not everyone agrees that these results are inevitable. Robert White, the Canadian director of the United Automobile Workers, argues (1981, p. 9) that layoff protection laws do not discourage investment because 'Corporations who are looking for new investments are focusing on potential <u>profitability</u>, not on what happens if they have to shut down.' However, although employers may not anticipate shutdowns, surely they forsee occasional cutbacks in response to declines in demand. They must, therefore, regard mandatory severance pay as an extra cost of

doing business.[15]

Nickell (1979) studies some of the effects of mandatory severance pay on employers' hiring practices. He builds a theoretical model in which demand for the final product is unstable, capital use is fixed, and firms face a cost, α, of firing and hiring a worker. He then examines the effects of an increase in α on hiring and firing behaviour. Nickell's model predicts that as the cost of firing goes up, both layoffs and the probability of hiring will fall. He then tests his hypothesis empirically, using data from the United Kingdom soon after the introduction of legislation lengthening the minimum notice period and requiring the provision of severance pay (funded partially by the employer and partially by a central fund to which all employers contribute). Controlling for the vacancy rate, Nickell finds that the probability of new hiring and the layoff rate did indeed fall; he estimates that the effect was a 19.8 per cent net increase in unemployment. Further empirical investigations using Nickell's approach would be useful in guiding public policy on the severance pay issue. In particular, expanding Nickell's model to look at the long-run effects on capital investment would be helpful.

Special measures for multinational or conglomerate firms

Many people believe that the practices of multinational corporations (MNCs) and domestic conglomerate firms may demand special measures relating to layoffs and plant closures. The interim report of the Select Committee on Plant Shutdowns and Employee Adjustment (Ontario 1980b) identifies a number of questions in this area. Do MNCs sometimes transfer profitable product lines from Canada to other countries? Should wholly owned subsidiaries of foreign-based firms be compelled to make financial information public? Should they be required to justify any plant shutdown or major cutback? If a closing is planned, are there circumstances under which the government might properly wish to purchase the subsidiary involved?

Before policymakers attempt to answer these questions, it would be

15 The fear has also been expressed, for small businesses experiencing cash flow problems, that mandatory severance pay would give creditors an incentive to close a facility that might otherwise survive with only partial cutbacks. (Courts have held that debts to secured creditors take precedence over severance benefits owed to employees.) See the Canadian Manufacturers' Association (1981, p. 30) and the Canadian Organization of Small Business (1980, p. 9).

helpful for them to have information on whether permanent or indefinite layoffs have occurred disproportionately in foreign-owned establishments. In a study of closing and cutbacks in Ontario from January 1971 to June 1972, Caloren (1974, p. 288) says he found that 'the locus of control did not as such exercise any special determining influence on disemployment activity'. More recently, however, others, such as the Ontario Federation of Labour (1980, p. 3), have expressed concern that worker dislocations are occurring disproportionately in foreign-based firms. The point is important enough to warrant careful study with other determinants of layoffs controlled for.

Several authors, such as Eleen and Bernardine (1971, p. 36) and Krawetz and Muszynski (1980, p. 41), express the concern that MNCs may restrict the operations of even efficient and profitable subsidiaries. The standard neoclassical response is to say that this cannot be so because behaving in this manner would be no more profit-maximizing for an MNC than for anyone else. However, Bluestone and Harrison (1980) provide an interesting counterargument. They say that large modern corporations, be they multinationals or large single-country multiplant firms, often set a target rate of return well above the cost of capital. Making an implicit assumption of market imperfection, such as bounded rationality, the authors claim that such firms face so many opportunities for earning monopoly returns on their investments that they are not satisfied with operations that are only somewhat profitable. Thus, they shut down plants but will not sell them - presumably lest a new competitor erode their market power.

If Bluestone and Harrison are correct in their premise, then governments do have reason to compel a multiplant firm to open its books in the event of a planned shutdown or major cutback; the business may indeed be viable, and the government may wish to keep it in operation, through purchase if necessary. As we have already noted, considerable cost-benefit study is needed on the subject of government intervention in such cases.

Another problem, which is particularly upsetting to the public, occurs when an MNC shuts down a plant soon after receiving a low-interest loan, loan guarantee, or cash grant from the government. Unfortunately, lump-sum grants do not affect an establishment's operating profitability and, therefore, provide no incentive for a firm to maintain a plant when the cost savings of shutdown are greater than the operating revenues fore-

gone. This phenomenon suggests a need to re-evaluate the design of grant programs, a task that is surely worth considerable study. A related and worthwhile research project would be investigating the 'retaliation' problem in the awarding of grants: if many jurisdictions simultaneously offer incentives for plants to locate in their areas, is the net effect a loss of social welfare for all except the companies involved? A generalization of the theory of retailiatory tariff protection may provide the answer.

CONCLUSION

The main conclusion of this review can only be that there is a great need for more research in and study of issues of policy related to permanent layoffs. The academic literature in particular is thin in this area. One can only hope that professional economists will soon begin to devote more attention to this important aspect of socioeconomic policy.

The existing literature does provide some clues for policymakers. In its light, the programs most clearly worthy of increased support are those that would increase the mobility of displaced workers. These include fully subsidized retraining and relocation programs, the establishment of completely portable private pension plans, and efforts at improving the quality and quantity of information available about the labour market. (An element of the last should be requiring employers who have scheduled mass terminations to participate in Manpower Adjustment Committees.) All these mobility-oriented programs offer the prospect of long-term gains for short-term costs. Various versions of them appear to have worked well in Western Europe; however, further study of the European experience would be useful.

Theoretical and empirical support for measures that would tax firing - requiring the employer to give lengthy advance notice and/or to pay severance benefits and the costs of mobility programs - is much less clear. External social costs are associated with the creation of unemployment. Government-financed mobility programs subsidize employment, but taxes on firing do not exactly tax the creation of unemployment since the employer may respond by reducing hiring without penalty. Thus, layoff policies that would tax firing must be carefully assessed for social costs and benefits. Such an assessment must take account of firing taxes' effects on wage rates, new investment, and new hiring activity. Nickell's work represents a useful first step in this regard.

Special policies designed to deal with layoffs in multiplant and possibly multinational firms may be warranted. There does appear to be reason for the government to consider exercising discretionary authority to compel such firms to open their books when they schedule plant closings or large cutbacks. However, further study is required, both of the association between mass layoffs and the locus of control and of the Bluestone-Harrison argument that large firms with high target rates of return may rationally choose to close profitable plants. An evaluation of location incentive grants is also warranted, with attention paid to the 'retaliation' problem.

Finally, there is a need for research on interactions among the various policy instruments. For example, to what extent do the costs of a long advance notice depend on whether it is coupled with mandatory, unconditional severance pay? It would also be of interest to investigate the effects of staggered severance pay schemes whereby benefits are given out in steps each month until the planned shutdown date.

Thus, the existing literature provides some guidance for the design of an optimal set of policies for permanent layoffs, but much further research is needed before one can be confident about the effects of many of the measures that have been suggested.

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ISSN 0702-0643 ISBN 07743-6306-1